

## **Employer-Sponsored Health Insurance: Is the Size of an Employer Relevant?**

*Massachusetts Division of Health Care Finance and Policy*

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**Summary:** The 2001 Massachusetts Employer Health Insurance Survey reinforced the fact that establishment size does have an effect on employer-sponsored health insurance. Generally, small establishments (especially those with fewer than 25 employees) are less likely to offer health insurance than large ones. Health plans offered by small employers also may be slightly less generous than those offered by large employers. However, small employers usually contribute a similar or even higher percentage to premiums as large employers. Therefore, the financial burden to their employees is comparable. Overall, Massachusetts employers offer health insurance at a higher rate than the country on average. To improve employer-sponsored health insurance even more and to use resources more cost-effectively, the state should focus on improving the offer rate in very small businesses.

Two-thirds of Americans have health insurance through their employers. Many national studies report that the size of the business is a prime determinant of whether employers offer health insurance to their employees. Workers employed by large companies are more likely to receive better benefits than those who work for small establishments. This analysis uses data from the 2001 Massachusetts Employers Health Insurance Survey to examine the impact of employer size on employer-sponsored health insurance through a series of indicators, such as offer rate, take-up rate, premiums and benefits.

### **Methodology**

As part of a federal grant<sup>1</sup> awarded to Massachusetts, the Division of Health Care Finance and Policy sponsored a telephone survey of private-sector Massachusetts establishments (single locations) regarding health insurance. The University of Massachusetts Center for Survey Research conducted the survey of over 1000 randomly selected private-sector establishments from April to November 2001. The sample was stratified by establishment size and included employers with at least two employees. Small establishments are defined as those with fewer than 50 employees while large establishments are defined as those employing 50 or more persons. Responses to survey questions were weighted to reflect the relative prevalence of that size establishment within Massachusetts. The survey included general questions as well as details regarding the employer's most popular plan (i.e., the plan with the largest number of members). Fifty-five percent of the establishments contacted responded to the survey.

### **Background on Massachusetts Employers**

Based on the survey, the 91% of all private-sector establishments that employ fewer than 50 workers constitute only 41% of the Massachusetts private-sector workforce. Large establishments, while a small percent (9%) of the state's businesses, employ almost 60% of the private-sector employees in the state. Half of the small establishments are in the service industry, 17% in retail trade, 10% in finance, while all other industries are represented by very

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<sup>1</sup> In September 2000, Massachusetts was awarded a State Planning Grant to develop viable options for providing access to affordable health insurance from the United States Department of Health and Human Services, Health Resources Services Administration.

small percentages. The majority of large businesses are primarily in the service industry (45%), followed by 16% each in the finance and manufacturing sectors.

### **Offer, Eligibility, and Take-Up Rates**

**Offer Rate.** An employee can acquire health insurance through his/her employer if the benefit is offered and the employee is eligible. Overall, fewer small establishments offer health insurance to their employees than do large establishments. Only 66% of small establishments offer health insurance compared to 95% of large establishments. Of the very small establishments (2 to 9 employees), only 58% offer insurance, compared to 81% of the next sized group (10-24 employees) and 94% of the 25-49 sized group. A national study that included public employees showed lower offer rates than those in Massachusetts, 58% for businesses with 3-9 employees, 76% for those with 10-24, and 90% for those sized 25-49.

Of the small employers that do not offer health insurance (34%), only 11% stated that they might offer insurance in the next two years. The top four reasons given for not offering insurance are the cost of premiums, employee coverage through a spouse or public program, employees working primarily part-time, and the financial status of the organization prohibits it.

**Eligibility.** Full-time employees usually are eligible for health insurance, while part-time employees less often. Only 29% of the part-time workers in small establishments are eligible for health insurance, compared to 46% of those employed by large businesses. Workers in small establishments also must work more hours to qualify for coverage, on average 31 hours per week compared to 28 hours.

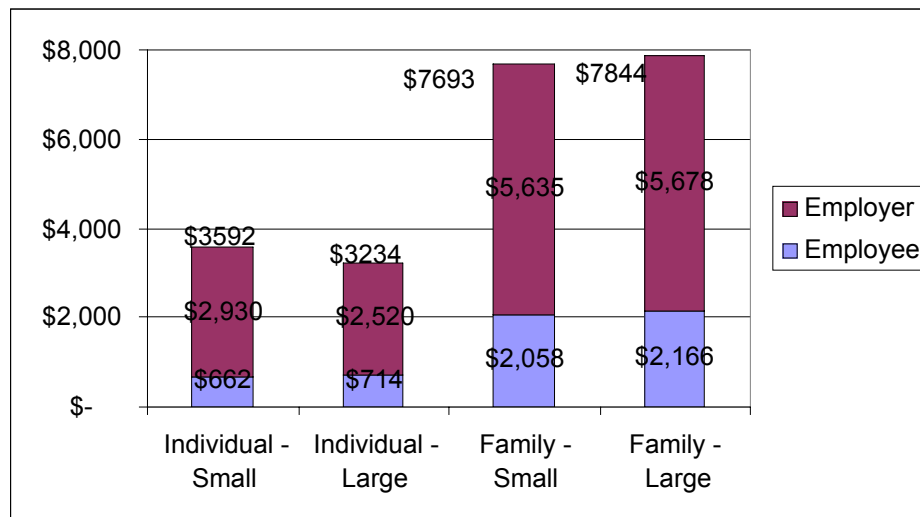
**Take-Up Rate.** Of the employees who are offered health insurance, the take-up rate is the percent who actually enroll in coverage. There is little difference in the take-up rate between small and large establishments – about three-fourths of all employees offered coverage accept it (74% vs. 78%). Employers believe that some employees do not take-up insurance because their share of the premium is too high, or because a spouse, a second job, or a public program such as Medicaid covers them.

### **Premiums**

**Annual Premiums.** In the survey, employers reported their premium costs for 2000 and 2001. For 2001, small employers reported higher average premiums for individual coverage (difference of \$358), but lower premiums for family coverage (difference of \$201) compared to large employers (Figure 1).

**Premium Contribution by Employer and Employee.** The average total premium for individual coverage at small establishments is higher than at large establishments, yet employers at small establishments pay more toward it. Therefore, employees in small establishments pay a lower percentage of the premium for individual coverage (18%) than those who work for large establishments (22%). Surprisingly, both the employees and employers in small businesses pay a lower average dollar amount of premiums for family policies than do those in large businesses. Employees contributing to a family premium pay approximately the same percentage of the total premium whether they work for a small (27%) or large establishment (28%).

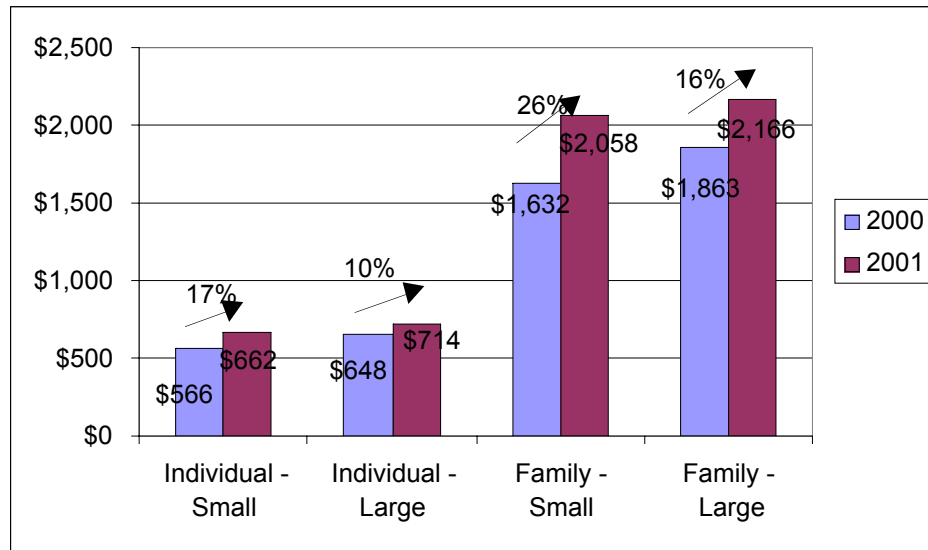
**Figure 1: Average Annual Health Insurance Premiums for 2001**



There is great variation in premium contribution among small establishments: some employers pay the entire premiums while others pay a fairly low share of the premium. Forty-five percent of small employers pay the entire premium for individual coverage and 36% pay the entire premium for family coverage, compared to approximately 10% of large employers who pay the entire premium for individual and family policies. If we remove the employers that pay 100% of the premium, the percentage that the employees of the small business contribute for a single policy increases from 18% to 34%, while for the large business the increase is smaller, from 22% to 24%. Comparable increases are also seen for the family premiums, from 27% to 42% for the small establishments and 28% to 30% for the large establishments.

***Increase in Employee Contribution.*** Due to the rising cost of health insurance, employers are increasing the share of coverage paid by their employees. The increases for employees were higher for those working for small establishments. Premium share for individual coverage increased by 17% or \$96 from 2000 to 2001 for employees in small establishments compared to 10% or \$66 for those working for large establishments. The increase for the employee share of family premiums was even greater, with small establishments reporting a 26% or \$426 per year increase and large ones a 16% or \$303 per year increase. (Figure 2)

**Figure 2: Average Increase in Employee Contribution to Annual Premium**



## Health Insurance Policies

**Plan Choice.** Small establishments are less likely to offer more than one health insurance plan than are large establishments. Only 18% of small establishments that offer health insurance offer employees a choice of health plans, compared with half of all large establishments (52%) that do so.

**Waiting Period.** There are few differences by establishment size in the waiting period before new employees are covered by health insurance. Large establishments are more likely to have a waiting period than small establishments, but the waiting period tends to be shorter. Thirty-two percent of small establishments have a waiting period of more than one month and 67% have a waiting period of greater than 3 months, compared to large establishments where 30% have a waiting period of more than 1 month and 58% for 3 months.

**Family Coverage.** Most employers offer health benefits to family members, as well as to the employee-- 90% of small businesses and 95% of large businesses that offer insurance. A much lower percentage of employers offer benefits to same and/or opposite sex domestic partners.

**Co-Payment Amounts.** Employees at small businesses pay higher co-payment amounts for physician office visits (\$10.70 vs. \$9.18), emergency room visits (\$37.08 vs. \$34.15) and two of three tiers of pharmacy charges than do employees at large businesses (\$9.31 vs. \$7.04 for generic drug; \$17.44 vs. \$14.34 for preferred drug; and \$18.59 vs. \$20.47 for non-preferred drug).

**Benefit Coverage.** The Massachusetts employer survey asked employers about whether they cover certain selected health benefits, some of which were state mandates. Of the benefits asked about in the survey, the most common ones offered by all employers were prescription drug

coverage and maternity care. Mammography screening and inpatient mental health services were the next most commonly covered by small employers. A high percentage of the respondents (more small employers) did not know if their health plan included infertility and contraception benefits, which could partially explain the reported low percentages (especially since infertility coverage is a state-mandated benefit). Figure 3 shows that small employers generally did not cover as many of these benefits as large employers.

**Figure 3: Benefits Covered by the Employer’s Most Popular Plan**

	Small Employers	Large Employers
Prescription Drugs	93%	98%
Maternity Care	88%	98%
Mammography Screening	84%	87%
Inpatient Mental Health Services	82%	93%
Well Child Care	80%	91%
Outpatient Mental Health Services	79%	92%
Substance Abuse	72%	88%
Contraception*	47%	64%
Infertility **	35%	62%

\* 37% of the respondents don’t know. \*\* 48% of the respondents don’t know.

**Retirees.** There are two types of employer-sponsored health benefits for retirees. One is for those who retire before age 65 and do not seek or obtain other work offering health insurance. This type of retiree health insurance covers them until they are eligible for Medicare at age 65. A second type of retiree health insurance benefit is wrap around/supplemental coverage for those covered by Medicare who are age 65 or older. Among the few establishments that offer retiree benefits, the differences by size are not noteworthy. Twenty-three percent of small establishments offer benefits to retirees younger than 65 years old, compared to 31% of large establishments; for retirees over age 65, only 18% of small establishments offer supplemental coverage compared to 26% of large establishments.

**Self-Funding.** By self-funding a health plan, the employer rather than the insurer accepts the actuarial risk of insuring, meaning that the employer actually pays the medical claims from its own resources. Self-funded plans are exempt from state laws and regulations, including state mandated benefits. Small establishments are less likely to self-fund (15%) than large ones (30%).

## Conclusion

Based on the Massachusetts employer survey data, the findings of this study show that employer size is important when assessing employer-sponsored health insurance. This study is unique in that it is based on Massachusetts data, yet the findings on offer and premium rates are comparable to national trends.

Although small employers usually offer less generous health insurance coverage than large employers, there is great variation in premium contribution among small employers. More than a third of small employers pay the entire premium for individual and family coverage and thus the financial burden to their employees overall is similar or even lower compared to employees working for large employers.

The Massachusetts Insurance Partnership (IP), a program to make health insurance more affordable to employers and their low-income employees, targets employers with 50 and fewer employees. Because most of the establishments that do not offer health insurance in the state are among the very small employers (fewer than 25 employees), it may be more cost-effective to concentrate the limited dollars from the IP program to businesses that have the most difficulty offering health insurance.

Take-up rates do not vary significantly by employer size. Therefore, if more companies offered insurance, more employees would be eligible and covered. Since the unemployment rate has increased due to the downturn in the economy and because health insurance premium costs continue to rise, small employers offering coverage today face even greater challenges to maintain coverage. Those that do not offer coverage likely will not begin to offer it due to the current economic environment. Therefore, the gap that exists between small and large employers' offer rates likely will remain at least until the economy recovers.

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